

Fiscal Year 2012



FISCAL YEAR 2012: Snapshot on August 31, 2012

RETIREMENT

Plans provide retirement benefits for state employees and elected officials (ERS fund), law enforcement and custodial officers (LECOSRF), and judges (JRS 1 and JRS 2).

- \$22.8 billion trust fund
 - 8.22%, or 8.04% net of fees, one-year rate-of-return on investments
 - 133,227 active members (ERS - 132,669; LECOSRF - 37,404*; JRS 1 - 17; JRS 2 - 541)
 - 88,447 retirees (ERS - 87,799; LECOSRF - 8,477*; JRS 1 - 433; JRS 2 - 215)
 - \$1.7 billion in retirement payments (ERS only)
 - 81% funded ratio (ERS only)
- *LECOSRF also is included in ERS count.

INSURANCE COVERAGE

The Texas Employees Group Benefits Program (GBP) provides coverage for health, life, dental, Voluntary Accidental Death & Dismemberment (AD&D), Long-Term Care, and Long- and Short-term Disability Insurance.

- \$2.4 billion estimated in health plan expenditures
- \$537 million estimated in member expenditures (does not include member costs to cover dependents)
- 510,951 participants (208,255 employees, 89,105 retirees, 208,270 dependents, and 1,483 COBRA)
- 397,029 employees and retirees enrolled in two dental plans

TEXA\$AVER PROGRAM

Tax-deferred supplemental retirement program

- \$2 billion in assets
 - \$1.56 billion in 401(k)
 - \$442.6 million in 457
- 121,516 401(k) accounts
- 23,876 457 accounts

TEXTFLEX

Flexible spending accounts for health and dependent care expenses

- \$92.8 million contributed to TexFlex accounts by state employees
- 51,338 accounts
- \$487.5 million in insurance premiums redirected
 - \$110.4 million estimated tax savings for participants (FICA and FIT)
 - \$37.3 million estimated tax savings for State (FICA)

To view the 2012 Comprehensive Annual Financial Report go to www.ers.state.tx.us/About_ERS/Reports/

INVESTMENTS

ERS manages a \$22.8 billion retirement trust on behalf of state employees and retirees who are the beneficiaries of the trust. Investment returns continue to be the largest funding component of retirement benefits, accounting for 54% of the ERS Trust retiree benefits over the last fiscal year.

An 8.2% investment return for FY12 helped the ERS Retirement Trust moderate some of the losses incurred in recent years. ERS also continues to surpass its long-term investment goals with a 30-year rate-of-return of 8.5%.

Day-to-day investment decisions are managed by ERS' professional investment staff within the policies, procedures, and risk management guidelines set by the ERS Board of Trustees. The ERS Board and Investment Advisory Committee are exploring options for adjusting Short- and long-term asset allocation targets to increase investment diversity while maintaining an acceptable level of risk.

ERS Retirement Trust Asset Allocation

Asset Class	August 31, 2012	Long-Term Target
Global Equity	54.0%	45%
Fixed Income	33.7%	33%
Private Equity	4.8%	8%
Diversified Real Estate	4.9%	8%
Hedge Funds	1.3%	5%
Special Situations	0.3%	0%
Cash	1.0%	1%

Internally Managed	74.6%	Externally Advised	25.4%
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To view ERS Investments information go to www.ers.state.tx.us/About_ERS/ers_investments/

Managing Retirement Costs

Many retirement systems provide retirees with automatic cost-of-living adjustments, but Texas state law forbids any benefit enhancements unless the system is fully funded.

RETIREMENT

The State of Texas provides retirement benefits to retired employees, elected officials, law enforcement officers, and judges as part of the State’s overall compensation package. The ERS retirement plans are designed to provide a reasonable and stable source of income for state employees during retirement at a low cost to the Texas taxpayer. The typical state agency retiree worked for the State for 22 years, is 67.8 years old, and receives \$18,799 (mean) a year in ERS retirement benefits.

Both the State and state employees contribute a portion of monthly salary to the pension trust fund. State employees are enrolled in the defined benefit plan 90 days after they begin working. The State’s contribution toward its employees’ retirement during the 2012-2013 biennium accounts for less than 0.5% of the State’s total two-year budget.

Retirement Monthly Contribution Rates		
	FY12	FY13
	% of salary	% of salary
Employees Retirement System of Texas		
State contribution	6.00%	6.50%
Employee contribution	6.50%	6.50%
Law Enforcement & Custodial Officers Supplemental Retirement Fund		
State contribution	0.00%	0.50%
Officer contribution	0.50%	0.50%
Judicial Retirement System of Texas Plan 2		
State contribution	6.0%	6.5%
Judge contribution	6.0%	6.0%

Employees share responsibility for pre-funding their retirement, a key factor toward maintaining a sustainable retirement plan. State and employee contributions are professionally invested to pay for future retirement benefits.

To view the ERS Retirement Valuation report go to www.ers.state.tx.us/About_ERS/Reports/

Managing Retirement Costs

Unlike in some state and public entities, Texas state employees contribute to their retirement funds – at least as much as the State itself contributes.

Managing Health Care Costs

Conducted a 100% dependent eligibility audit, resulting in a 5% reduction in overall plan membership (through the removal of ineligible dependents) and \$12.2 million in net savings for FY12.

TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

ERS lowered health plan costs \$6.7 billion in FY12 with tough cost-management practices. The recent federal health care reform bill requires insurers of large plans to spend 85 cents of every health insurance dollar on health care costs. HealthSelectSM of Texas far exceeds this standard with about 97 cents of every HealthSelect dollar going toward health care costs.

Just a few of our accomplishments:

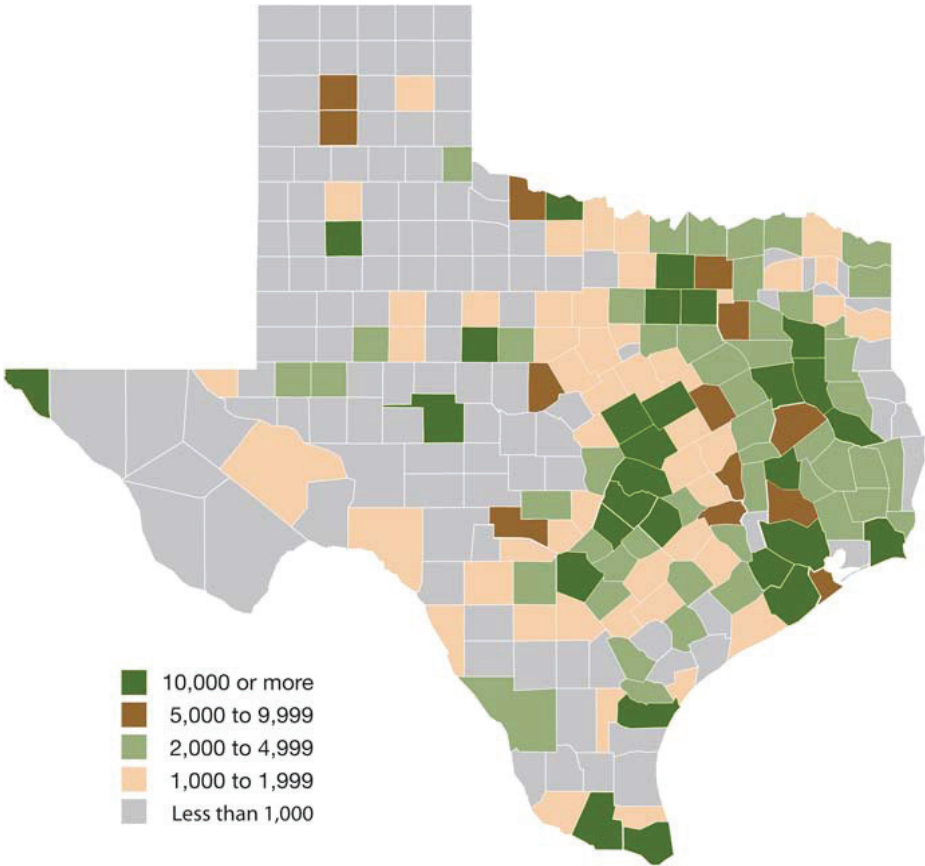
- Contracted for an Employer Group Waiver Program + Wraparound (EGWP + Wrap) for Medicare retiree drug coverage as of January 1, 2013 (\$27 million savings for calendar year 2013).
- Implemented a Medicare Advantage plan (\$15.3 million in premium contribution savings for enrolled Medicare-eligible retirees with dependents).
- Negotiated a new HealthSelect third-party administrator contract (\$25 million savings for FY13-FY16 compared to other administrative proposals).
- Negotiated a Pharmacy Benefit Manager contract extension, reducing guaranteed plan costs by \$41 million for FY13 and FY14 combined.
- Collected \$5.2 million in additional premium contributions from more than 26,000 tobacco users.
- Obtained reimbursement from the federal Early Retiree Reinsurance Program (\$70.9 million in total funding received during FY11 and FY12).
- Conducted a 100% dependent eligibility audit, resulting in a 5% reduction in overall plan membership (through the removal of ineligible dependents) and \$12.2 million in net savings for FY12.
- Continued to build upon the success of three Patient-Centered Medical Home programs (realized \$11 million in FY11 savings; FY12 savings not yet available).

To view the 2012 Cost Management and Fraud Report go to www.ers.state.tx.us/About_ERS/Reports/

Managing Health Care Costs

Implemented a Medicare Advantage plan (\$15.3 million in premium contribution savings for enrolled Medicare-eligible retirees with dependents).

Number of ERS Members and Annuitants by County



The GBP covers one in 48 Texans and contributes more than \$2 billion a year to the Texas economy through health care provider payments.